

Citizens Advice Response To Ofgem's Consultation Smart Billing For A Smarter Market: Our Proposals



Introduction

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups. In 2012/13 the Citizens Advice service in England and Wales advised 2.3 million people on 6.6 million problems.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the OFT. This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

In the last four quarters Citizens Advice Bureaux have dealt with 84,000 enquiries about fuel debt, while hits to the energy section of our website doubled in October and November, the period during which suppliers announced their price increases last year. Calls to the Citizens Advice Consumer Helpline seeking advice about energy doubled in the same period.

Initial comments

Citizens Advice is delighted for the opportunity to respond to this consultation on smart billing. We have been involved extensively in Ofgem's Consumer Empowerment and Protection project, attending meetings, providing evidence through information requests and other data, and presenting findings to industry to support our calls for better consumer outcomes.

Our recent report *The Lost Decade: Consumer Experience of Energy Billing Issues 2005-2015*, outlined a litany of problems that have beset consumers concerning their billing arrangements - poor data, little communication, arcane complaints procedures - as well as patchy progress towards better outcomes over the period.

Billing remains the single biggest source of complaints in energy. It accounts for around 80% of the Energy Ombudsman's cases and 70% of all direct complaints to suppliers. We've estimated the industry-wide cost of dealing with these issues could be up to £125m per year¹. Compounding this situation is data indicating that satisfaction with complaints handling is low².

In response to these challenges, we are pleased Ofgem has decided to take the opportunity presented by smart meters to exert pressure on suppliers to improve their billing practices. Mandating a backbilling limit in supplier licence conditions and obliging suppliers to declare how many of their smart meter customers are receiving accurate bills will go some way to ensuring this new technology delivers material benefits for consumers.

The business case for smart meters remains contested. In order for the programme to represent a significant opportunity for consumers, industry needs to deliver tangible improvements and lead by example in implementing better billing practices. As well as the proposals in this consultation, this should include a more flexible approach to billing frequency, and timelier provision of closing and opening bills to help consumers avoid shock charges on leaving their supplier. In our role as the statutory consumer watchdog, Citizens Advice will be using our influence to encourage good practice on these matters.

¹

https://www.citizensadvice.org.uk/Global/CitizensAdvice/essential%20services%20publications/Lost%20Decade%20Report_Executive%20Summary_New_Front.pdf

² <https://www.ofgem.gov.uk/publications-and-updates/complaints-energy-companies-research-report-2014>

CHAPTER: Two

Question 1: Do you agree with our assessment of the risk of estimates and backbills in the smart future? Please provide any evidence you have to support your answer.

We agree there is an inevitability of some ongoing and as yet unforeseeable circumstances arising which may prohibit consumers receiving an accurate bill from their supplier every time.

However, consumer (not to mention political) expectations of smart meters are high. Our own information request on smart billing from last year (as referenced in this consultation) highlighted that some suppliers are issuing a significant minority of their smart customers with estimated bills. With the expected programme benefits from energy efficiency having receded in the face of cost reassessments and lukewarm results from load shifting trials³, accurate bills remain the most high profile benefit being advertised to consumers, in the short term at least. This situation rightly creates pressure on suppliers, the DCC and Ofgem to do everything in their power to ensure that accuracy is as high as it can be from day one, and is subject to a process of continuous improvement as the rollout progresses.

Question 2: Do you agree that a time limit on smart backbills is an appropriate response to this risk?

A time limit on smart backbills will create the right incentives on suppliers to get this crucial aspect of the consumer benefits of the new technology right. However, it ensures balance by allowing suppliers time to embed new procedures and practices, and troubleshoot problems early in the rollout. Our evidence, as referenced by Ofgem, indicates that consumers quickly lose confidence in their smart meter if they continue to receive inaccurate bills following installation. The requirement is therefore necessary to mitigate serious reputational damage to the rollout that ongoing billing issues could create.

Citizens Advice has previously called for the allowable backbilling period to be limited to one billing cycle (typically three months), so we are pleased a timetable has been outlined for review of the proposed six month limit. Once coverage for the Wide Area Network (WAN) reaches out to the whole of GB,

³ Where Next for the Smart Energy Consumer? Citizens Advice, March 2015
<https://www.citizensadvice.org.uk/Global/CitizensAdvice/essential%20services%20publications/LCNFpolicypaper.pdf>

SMETS2 meters are being installed as standard, and all SMETS1 meters are enrolled in the DCC and interoperable, there will be little left from a technical perspective precluding suppliers from getting bills right every time. It is right that requirements should evolve to reflect that.

Question 3: Do you agree with our proposal to implement such a limit via licence obligations? If not, what alternative would you suggest?

Given the need to ensure maximum protection for consumers, we believe an industry-wide requirement through the licence is appropriate. There are over thirty suppliers now in the domestic energy market, so a continued framework of voluntary industry action - as exists at present with five participants undergoing an annual audit - is clearly inadequate to secure full coverage on a reasonable timescale.

Citizens Advice has in the past raised concerns about how new entrants into the market interact with consumers, particularly regarding their awareness of obligations in relation to vulnerable consumers. A licence condition ensures maximum visibility for the requirement, including for new entrants, and means enforcement mechanisms will be clear and can act as a firm deterrent to poor practice. This compares favourably with current arrangements, whereby annual audits are carried out of billing practices but only the [overall result](#) is made public, and transgressors in the voluntary code face lighter sanctions than those which could be imposed for licence breaches.

The opportunity that licence obligations give of having a drop dead date for implementation is also appealing, as again there will be no ambiguity on the part of suppliers as to when the requirement applies from.

Given the importance and high consumer expectations of smart billing, we consider license obligations the most sensible, proportionate and robust means of introducing the requirements. We note that whilst six months would be a minimum condition in the licence, it does not delimit individual suppliers from going further to give themselves a competitive edge in the marketplace.

Question 4: Do you have any comments on our proposal for suppliers to publish billing performance data for consumers with smart meters?

We consider this to be crucial for driving good supplier performance and ensuring consumers are able to make informed decisions in the market. An accurate billing league table will create informal, reputation-based incentives for suppliers to do everything in their power to issue accurate bills. We also envisage it could become one of a suite of key indicators that influence consumer decisions on whether to contract with any given supplier. This seems appropriate, given Ofgem's goal of creating a market-place full of informed consumers exercising their market power.

In order to ensure the exercise produces meaningful results, we recommend Ofgem engages with suppliers at the earliest possible opportunity to give a clear expectation of how it expects the data to be collected and presented. From our own smart billing information request we know that, in the absence of very specific guidance, it cannot be assumed that data returns will be uniform or comparable. Both Ofgem and Citizens Advice are planning on increasing the volume of performance information we publish in the future. Smart billing data could work well as a joint production and release in terms of getting the message broadcasted as widely as possible.

Question 5: Do you agree with our proposed treatment of microbusinesses? Please provide details of any reasons why not.

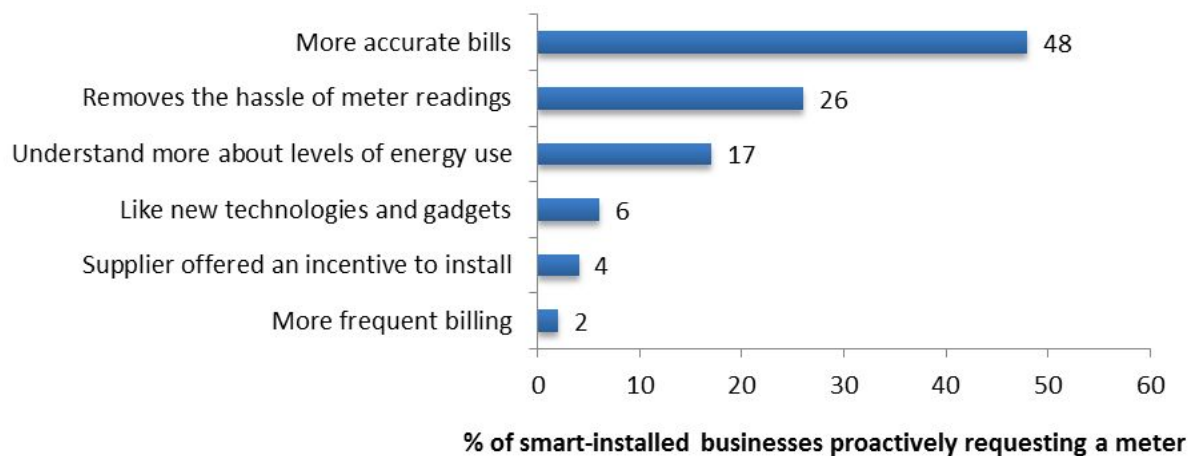
We agree that the backbilling limit should also apply to microbusinesses. The onus should be on suppliers to justify any differences rather than the counter-assumption. The voluntary code which Citizens Advice helped draft in this area has been very successful in bringing most suppliers up to the 1-year backbilling standard, and the limits proposed here are a natural next step.

We agree that there are some (limited) differences between the domestic and microbusiness markets but suppliers are already aware of these differences and they are reflected in their current business model. The arguments put forward by industry stakeholders, as summarised in Ofgem's consultation document, are not sufficient to justify implementing a less robust protection framework.

More generally, our own research⁴ on what consumers were most interested in using smart meters for shows how important billing accuracy is for microbusinesses, with it being consistently identified as crucial. Allowing lower standards for billing (especially on backbilling) would be counter-intuitive as it would, therefore, undermine overall confidence in the programme.

⁴ <http://www.consumerfutures.org.uk/files/2013/08/A-smart-business.pdf>

Breakdown of reasons given for requesting a smart meter (multiple responses):



Our research already suggests that there are big challenges for suppliers in terms of ensuring the predicted demand reductions occur, so additional problems should therefore be avoided at all costs.

Similarly, we would like to see equivalent data published on the accuracy of billing in the microbusiness sector. It will be as useful for driving up standards for non-domestic consumers as it will be for household users.

CHAPTER: Three

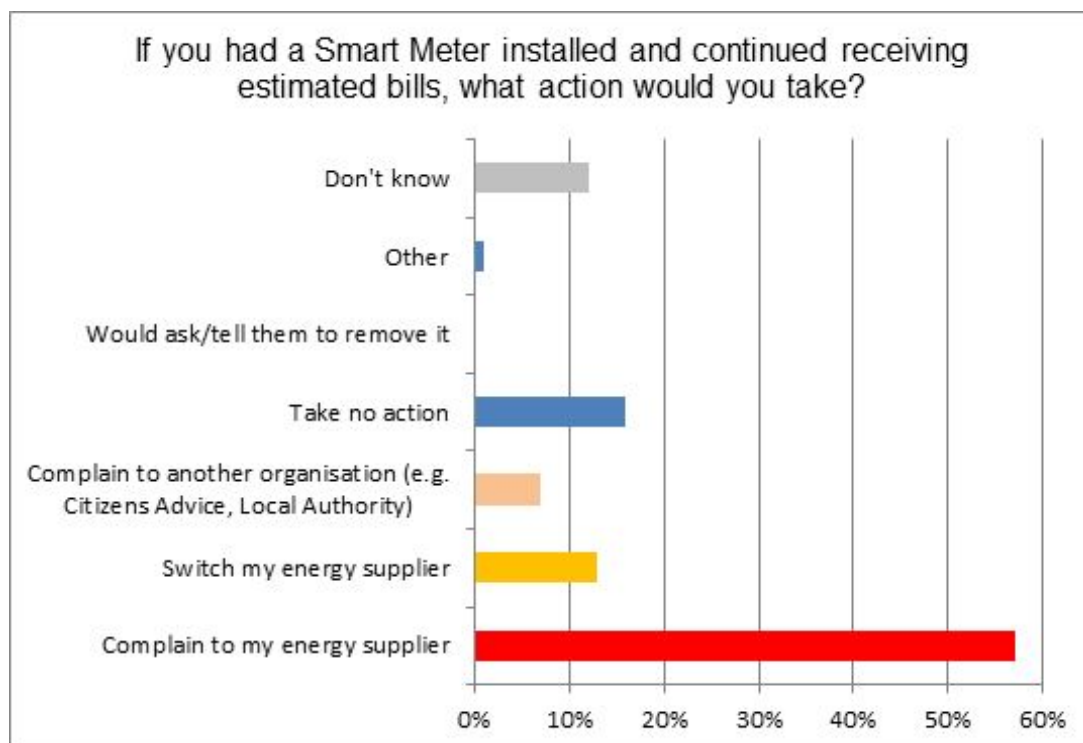
Question 1: Do you agree with our proposal for the duration of a smart backbill limit?

We understand the rationale for setting the limit at six months for the initial part of the rollout.

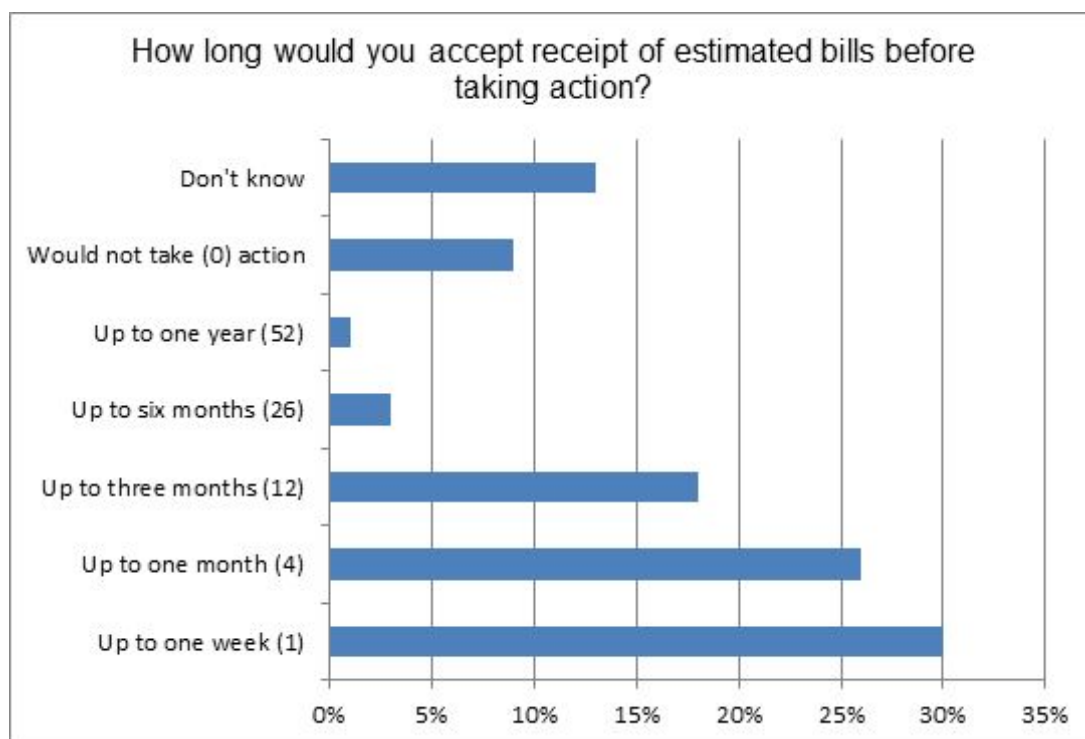
However, omnibus polling carried out by Citizens Advice (results set out below) clearly indicates that consumers are unhappy with the prospect of having smart meters installed that do not deliver accurate bills.

Given the hassle factor of consumers going through the installation process and learning to use the new technology, it may be a bridge too far to expect them to bear with their supplier over teething problems beyond three months, let alone six months. We therefore welcome Ofgem's stated intention to reduce the backbilling limit, subject to review.

In the interim, the onus will be on suppliers to communicate clearly and promptly with consumers about the reasons and mitigations for instances where their bill has been estimated, rather than based on a remote read, and take immediate steps to investigate and resolve associated issues. Ofgem should work with suppliers to share and help develop these best practice approaches to communicating and dealing with smart billing issues. Satisfactory resolution of such events will not only give suppliers a better chance of hanging onto their customers but could prevent them from having to manage costly complaints further down the line.



TNS-BRMB for Citizens Advice: face to face poll of 2,053 respondents carried out between 30 January to 3 February 2015. Sample size unweighted 1,428, weighted 1,418.



TNS-BRMB for Citizens Advice: face to face poll of 2,053 respondents carried out between 30 January to 3 February 2015. Sample size unweighted 1,428, weighted 1,418.

Question 2: Do you agree with our proposed implementation timescales?

Citizens Advice agrees in principle that suppliers need some time from final decision to implementation in order to prepare systems for this change to back billing practice. Given the impending advent of DCC Live next August, we strongly urge the regulator to make this decision as soon as possible so that the requirements are in place from that date. Should DCC Live be delayed again, there is merit in implementing this requirement in lieu of that event, given the growing number of consumers with SMETS1 meters who stand to benefit from the limit.

The foundation stage of the rollout was created to give energy suppliers the ability to hone their smart offering. The advantages accrued to suppliers who used the foundation stage to get their systems in place and troubleshoot billing and other issues are a function of the competitive market. Given the opportunity to be proactive was open to all, Ofgem is entitled to make policy with the actions of such suppliers in mind.

It is of some comfort that a further tightening of Energy UK's voluntary backbilling limit could be introduced in the interim. However, we note that their

arrangement is both less ambitious than the proposed license condition (nine months versus six months) and that it will not have full market coverage. As with the present billing code, it will presumably also carry weaker penalties for transgressors than a licence condition. The sooner a robust, whole-market requirement is in place the sooner it will start reducing consumer detriment.

Question 3: Do you agree with our proposed scope of a smart backbill limit? If you disagree with specifics, please provide details.

We are concerned by the consumer impacts of precluding smart meters operating in 'dumb' mode from the scope of these requirements.

Given the different communications services being used by energy suppliers, at present the majority of SMETS1 meters lose WAN functionality when consumers switch to a different supplier. Consumers with these meters face the invidious decision of switching and losing remote meter readings and an accurate pounds/pence estimate of their use or not switching and potentially missing out on the best deals. This dilemma puts the programme at odds with other government messages that frame switching as the main way to improve consumer outcomes.

Under this proposal, SMETS1 switchers will lose out on yet another benefit to which they should be entitled but for technical limitations. With an estimated 5m such meters set to be installed in homes across Great Britain ahead of the SMETS2 mandate in August 2017, and no guarantee whatsoever on when precisely they will become fully interoperable (i.e. capable of switching whilst retaining WAN functionality), this will be another disadvantage for early adopters of smart metering systems, and one that was not communicated to them when they agreed to have smart meters installed. As the success of the rollout will be due at least in part to such early adopters acting as advocates of the technology, this poses a significant risk to consumer confidence in the programme.

In order to mitigate the detrimental impacts of consumers switching and losing functions to which they will presumably have become accustomed to or even relied upon, we urge Ofgem to come forward with proposals obliging industry parties to work together to enroll SMETS1 meters at the nearest possible date. Alternatively, Ofgem should explore other workarounds to allow SMETS1 customers to continue to benefit from backbilling protections should they exercise their right to switch supplier. Not investigating an alternative to simply dropping this protection for up to 5m households (who will represent a range of

demographic groups, not just early adopters who may have accepted such risks) could seriously damage perception of the rollout and consumers' trust of the industry.

Citizens Advice is also keen to understand how 'customer at fault' backbilling events will be determined. In particular, we would like to see in detail what prescription, if any, there will be for number and type of contacts required that would constitute the customer denying access to the meter or failing to provide necessary details to enable billing. These requirements need to be carefully considered so they do not disadvantage consumers who may be uncontactable or more difficult to contact for legitimate reasons. It must also not allow suppliers to game the system by making an inadequate effort, and then simply issuing a back bill rather than being proactive in ongoing attempts to reach their customers.

We are pleased that Ofgem plans to include any smart meter energy consumption prior to the license condition coming into effect in the scope of the requirement. Any distinction on consumption pre/post requirement could be messy to administer and lead to poorer consumer experience.

Question 4: If you are a supplier, do you agree with our assessment of the implications of the proposed backbill limit for your business?

Not applicable.

CHAPTER: Four

Question 1: Do you have any comments on our proposed approach to these objectives (on change of supplier, billing frequency and Direct Debits)?

Change of supplier - Timely and accurate opening bills, final bills and rebates

We are disappointed that these proposals have not gone further in realising the potential billing benefits that smart meters can offer.

Given processes for smart meters should allow much quicker bill issuing and associated credit refunds, it seems incomplete not to transition these improvements into consumer benefits.

The current licence obligation for suppliers to take all reasonable steps to issue a final bill within six weeks of losing a customer is already unsatisfactory. Assuming the timescale is met, which Citizens Advice complaints data shows is often not the case, it is problematic for consumers as it can lead to final bills coinciding with opening bills from their new supplier. Ofgem's own research showed that this was a worry for consumers in relation to the change of supplier process.⁵ Indeed, overlap between final and opening bills can cause significant budgeting problems for consumers, in particular those households with lower levels of disposable income (who, according to Ofgem data, are also less likely to switch⁶). For example, the consumer may receive a large final bill from their old supplier, perhaps due to their Direct Debit being under-estimated, whilst also being billed by their new supplier. These situations also cause confusion as consumers could have the impression that they are 'paying twice' for their energy.

The following case study from Norfolk Citizens Advice Bureau illustrates the above points:

The client's energy supplier increased her Direct Debit payments without her knowledge. When she became aware of this four months later, she contacted the supplier to complain. They said that she would receive her money back within 60 days, which did not happen. In October, the client decided to switch supplier. Throughout November, the client received more bills from her old supplier. The client was concerned that she had possibly been overcharged for her energy supply and was getting two bills, one from the previous supplier and one from the present supplier.

The current six week time limit on final bills is set to become even more of an issue in a smart world where suppliers can offer consumers accurate monthly billing. This increases the likelihood of issues arising where the consumer has received their opening (monthly) bill before receiving a closing bill from their previous supplier.

5

<https://www.ofgem.gov.uk/publications-and-updates/ofgem-consumer-first-panel-research-inform-ofgem%E2%80%99s-review-change-supplier-process>

⁶ State of the Market Assessment, Ofgem, March 2014

<https://www.ofgem.gov.uk/ofgem-publications/86804/assessmentdocumentpublished.pdf>

We also disagree that objective three (timely and accurate opening bills, final bills and rebates) is covered sufficiently by the proposals for estimates and backbills and other recent or ongoing work. It is true that there will be some knock-on effect of wider improvements to billing accuracy that will help improve the accuracy of opening and closing bills. However, in our experience, the issues consumers face with final bills are inextricably linked to deeper problems with the change of supplier process and these issues cannot be tackled in isolation from specific billing failures.

Data from the Citizens Advice Consumer Service indicates a myriad of problems interwoven with consumer experiences of delayed final bills. It also reveals the added difficulties consumers face when trying to resolve these issues, such as having to mediate between two suppliers and other breakdowns of communication. Some of the issues associated with smart meter consumers not receiving final bills, or experiencing delays, include:

- suppliers not agreeing final meter reads with each other
- debt recovery action linked to billing failures
- unresolved issues with the losing supplier
- consumers not able to take final meter readings due to meter issues
- suppliers disputing responsibility for smart meter issues
- consumers having to contact both suppliers
- consumers not being updated with the progress of the switch, leading to confusion as to which supplier they are liable to pay

As these examples show, the reasons consumers are not issued with timely and accurate bills are intimately linked with the change of supplier process and related issues. Examples of this happening to consumers who already have a smart meter show that the potential benefits of smart functionality for improving final bill timescales are not necessarily straightforwardly realised.

In order to address these issues, we suggest Ofgem establish a smart change of supplier working group. The group would compliment existing work on smart billing, while looking specifically at the improvements to the change of supplier process that are necessary in order for objective three to be realised. As an interim measure, Ofgem should explore whether publishing regular information on supplier timeliness in issuing final or closing bills could incentivise performance improvements. As before, there would need to be clear guidance to ensure that suppliers are collecting and reporting consistent and comparable data.

Billing frequency - Accurate bills supported by convenient and effective billing frequency and payment method arrangements

Contrary to Ofgem's research on billing frequency (cited on pg 29 of the consultation document), provisional research findings from Citizens Advice indicate that there is appetite among consumers for higher billing frequency.⁷ When consumers were asked how frequently they currently receive bills and how frequently they would like to receive bills, consumers said they wanted more frequent bills. Indeed, the research found that 9% more people want to be billed monthly than currently get monthly bills. No demographic group wished to be billed less frequently than currently. This consumer preference does not tally with licence conditions, which do not set out a maximum allowable period between bills for customers with smart metering systems.

As the smart market moves from conception to reality, it is going to be increasingly important for suppliers to be flexible with their billing processes and timescales (particularly crucial in light of the proposed move to one day switching). Whilst we understand why Ofgem has not moved to mandate more flexible billing at this stage, now may be the time to start undertaking pilots and investigating how it can best be facilitated. At a minimum, we suggest suppliers have arrangements in place to enable them to bill their customers on a monthly basis.

In September, Citizens Advice introduced a new [tool](#) to highlight individual suppliers customer service offer, which includes information on the frequency of billing offered to customers using a range of payment methods. The tool will allow consumers who would prefer to receive more frequent bills to identify suppliers who offer this service. It is our hope that this will help encourage other suppliers to improve their billing frequency.

Direct Debits - Appropriate Direct Debit calculations based on accurate consumption data

We agree that the additional data provided by smart meters will enhance the ability of suppliers to set Direct Debit payments accurately. In the meantime, however, we are continuing to see issues with some suppliers not setting Direct Debits at appropriate levels (excluding circumstances where the consumer wishes to avoid spikes by spreading the cost of their energy evenly throughout the year). We are happy to provide more information on the issue outside of this response.

⁷ Bespoke research conducted by GfK for Citizens Advice (just over 8,000 consumers on GfK's energy panel)